

City Hall Financial Feasibility



Presentation to City Council
July 1, 2009

Overview

- Design & Development Update
- Development Budget Recap
- Financing Approval Process
- Financial Options – Risk Analysis
- Direction from City Council

Design and Development Update

- Core & shell design 99%; interior 99% complete
- Hard wall vs. cubicle cost analysis underway
- Transmission line relocation complete; distribution lines pending
- Plans review by City pending Council direction (\$217,000 of \$650,000 total permit fees)
- Demolition of structures after financing secured
- Acquired 400/500 Main St for parking garage
- Recruiting a Major Projects Dev. Manager

Budget Recap – City Hall Construction

City Hall Building

<u>Sources</u>	<u>To Date</u>	<u>Planned</u>	<u>Total</u>
COP's	\$0	\$137,000,000	\$137,000,000
Internal Service Funds/Grants	\$0	\$6,000,000	\$6,000,000
UP Phase 1 Bonds	\$5,100,000	\$0	\$5,100,000
Capital Fund Balance	\$0	\$4,000,000	\$4,000,000
General Fund Balance	<u>\$5,000,000</u>	<u>\$0</u>	<u>\$5,000,000</u>
Sub-total	\$10,100,000	\$147,000,000	\$157,100,000
<u>Uses</u>			
Forest City Management (5%)	\$479,363	\$5,980,748	\$6,460,111
A/E/Reimb/Soft Costs	\$5,764,949	\$7,154,811	\$12,919,760
Utility Relocation	\$2,000,000	\$2,098,740	\$4,098,740
Construction	\$1,855,688	\$106,077,976	\$107,933,664
FFE	\$0	\$11,000,000	\$11,000,000
Land Carry	<u>\$0</u>	<u>\$4,643,800</u>	<u>\$4,643,800</u>
Sub-total	\$10,100,000	\$136,956,075	\$147,056,075
City Contingency	<u>\$0</u>	<u>\$10,000,000</u>	<u>\$10,000,000</u>
Total	\$10,100,000	\$146,956,075	\$157,056,075

Budget Recap – City Hall Parking Garage

Parking Garage - Off-Site

<u>Sources</u>	<u>To Date</u>	<u>Planned</u>	<u>Total</u>
Nickel Tax	\$8,400,000	\$0	\$8,400,000
MTO Bonds	\$0	\$13,000,000	\$13,000,000
Parking Ent. Fund	\$0	\$2,000,000	\$2,000,000
Capital Fund Balance	\$0	\$5,000,000	\$5,000,000
RTC Grant - RR Bridge	<u>\$0</u>	<u>\$500,000</u>	<u>\$500,000</u>
Sub-total	\$8,400,000	\$20,500,000	\$28,900,000
<u>Uses</u>			
Land	\$8,400,000	\$0	\$8,400,000
Construction	<u>\$0</u>	<u>\$20,500,000</u>	<u>\$20,500,000</u>
Sub-total	\$8,400,000	\$20,500,000	\$28,900,000

Financing Approval – Prior Steps

April, 2008

- Approved MOU

May 21, 2008

- City Council approved MDA outlining deal structure

January 7, 2009

- Res. R-2003-09 approved sending COPs to DMC

February 13, 2009

- DMC approved COPs sale, debt limit of \$267M

February 18, 2009

- City Council public hearing approved proceeding to issue COPs, debt limit of \$267M

April 28

- Department of Taxation approved COPs

Financing Approval – Current Status

- All third party approvals (DMC and Taxation) are complete
- Supreme and District Courts ruled City can legally proceed
- Finalizing financing terms with underwriter:
 - Collateral agreements
 - Land transfer at closing
- Exploring the use of Build America Bonds for portion of COPs financing
 - Lower project related interest cost through federal subsidy payment

February 18 Hearing: Debt Assumptions

<u>Year</u>	<u>Interest Payment</u>	<u>Reduced Payment</u>	<u>Capit. Inter. Portion</u>
2010-12	\$18.6 M	\$0 M	\$18.6 M
2013-16	\$18.6 M	\$2 M	<u>\$16.6 M</u>
Total Accruals			\$121.9 M

Note - City Hall only

Options at end of capitalized interest period

1. Purchase via tax-exempt bonds
2. TIF from P-Q/related projects could cover up to 100% of payment
3. Pay down debt using land sale proceeds or revenues
4. Continue Lease-Purchase Agreement, amortize interest

Changes in Assumptions Today From Above:

1. Cap-I is no longer funded with taxable bonds (we intend to use CABs)
2. CABs reduce the Cap-I to \$7M

Financing Approval Status – Next Steps

July – August

- Bid Project and get GMP for construction
- Finalize underwriter terms and conditions

September 2

- Introduce COPs Ordinance

September 15 or October 6

- Recommending Committee for COPs

October 7

- Price COPs
- Approval of COPs Bond Ordinance
- Final Approval of Financing Contingency
- Final Approval of Transaction Documents & OPA

6 – 14 Days Later

- Close COPs

Financial Options – Risk Analysis

- Then vs. Now
- Straight GO Bonds (lowest cost)
- COPs (highest cost)
- COPs/GO Hybrid (realistic)
- Hold/Do Nothing

Then vs. Now

April 2008

- Real estate finance market performing
- COPs rate at 5.5%
- Just heading into recession

Today

- Real estate financing non-performing
- COPs rate 7.5 – 8.5%
- Well into recession but indicators of bottom or early recovery

GO/Revenue Bond Option

- Assuming GO Bond at 5.5% interest and 3 years of capitalized interest, debt schedule would be:
 - \$2M in yrs 1 – 3 (garage only), \$14M in yrs 4-10 (with parking), \$12M yrs 11-30
- Pros:
 - Lowest possible financing cost
 - Locks in low rate, no need to refinance
- Cons:
 - Burdens General Fund (inconsistent with CC position)
 - Taxpayers at risk for increased tax rate
 - Can't absorb in near-term budget
 - No non-appropriations clause
 - Requires DMC approval and 90 day petition period

COPs Option

- Assuming 7.5% interest rate and 7 years of capitalized interest, COPs yields debt payments of:
 - \$0M in yrs 1–3, \$2M in yrs 4-7, \$22.5M yrs 8-30, current MTO plan is \$2M yrs 1-10
- Pros:
 - Non-appropriation clause
 - No property tax increase if payments can't be made
 - Possible use of Build America Bonds
 - Debt in years 1-7 supported by GF revenues
 - Approved by DMC and State Taxation
- Cons:
 - High interest cost
 - No guarantee of TIF or land sale revenue from RDA to pay back-end payments

COPs/GO Hybrid Option

- Assuming COPs are in place for 7 years and City refinances with GO Bonds in Year 8, scenario yields :
 - \$3M in Years 1 – 7, \$18M in Years 8-30 (with parking)
- Pros:
 - Low short-term debt service, with lower long-term debt service
 - Non-appropriation clause in years 1-7
 - Possible use of Build America Bonds
- Cons:
 - No guarantee of GO rate or refinance ability in yr 8
 - No guarantee of TIF or land sale revenue from RDA to pay debt service or accrued interest

Financing Scenario – Hold Alternative

- City could take no action on moving forward
- Pros:
 - Buys time relative to economy and revenue capacity
 - May yield lower rates on financing
 - No risk of GF impact if economy doesn't recover
- Cons
 - City doesn't realize gain on sale of P-Q to Forest City
 - May lose Forest City as a development partner
 - Rising construction costs
 - Potential negative impact to redevelopment momentum
 - Repair/maintenance of old city hall
 - Difficulty in using current investment at a new site
 - Loss of use of Build America Bonds (expire in 2011)

Debt Capacity of City

Municipality	Millions	Per Capita	% of AV
Debt Outstanding at 2/2/09			
Las Vegas	\$ 287.5	\$ 486.9	1.2%
Reno	\$ 118.1	\$ 535.2	1.5%
Henderson	\$ 353.8	\$ 1,359.9	2.2%
Clark County	\$ 2,924.2	\$ 1,496.3	2.6%
North Las Vegas	\$ 362.7	\$ 1,723.2	4.0%
Carson City	\$ 124.1	\$ 2,149.5	6.7%
CC School District	\$ 5,007.0	\$ 2,562.0	4.5%
Debt Proposed			
Reno	\$ 118.1	\$ 535	1.5%
Las Vegas (1)	\$ 554.0	\$ 938	2.2%
Henderson	\$ 353.8	\$ 1,360	2.2%
Clark County	\$ 2,924.2	\$ 1,496	2.6%
North Las Vegas	\$ 362.7	\$ 1,723	4.0%
Carson City	\$ 124.1	\$ 2,149	6.7%
CC School District	\$ 5,007.0	\$ 2,562	4.5%
(1) Includes:			
2/2/09 Debt		\$ 287.5	
PAC (GO/Rev Rental Car Tax)		105.0	
City Hall (Lease-Purchase)		161.5	
		<u>\$ 554.0</u>	

Factors to Consider

- City's per capita debt will still be below other NV municipalities after COPs
- While current cost of borrowing is high, no guarantee what future borrowing cost will be
- Risk of pledging future General Fund tax revenues
- Will RDA TIF/land revenues cover full payments
- Increase in future construction costs
- Proceeding with COPs and land swap keeps Forest City vested in development downtown
- Will a delay cause redevelopment backslide?

City Council Direction Sought

- Firm construction price and financing terms required
- Council direction on moving forward with:
 - appraisal/construction feasibility study (\$50,000 total)
 - plans review (\$216,340)
 - authority to commit balance of permit fees in phases (up to \$650,000)
 - seek bids prior to Sept. 2
 - funds for these expenses have been budgeted and do not require further augmentation
- City seeking approval from Council to proceed with COPs process per schedule:
 - First reading of COPs ordinance Sept. 2
 - Second reading of COPs ordinance Oct. 7
 - Subsequent sale and closing of COPs

Public Purpose – Development Impact



Fiscal/Economic Impact – Timing is Issue

<u>Project</u>	<u>Private Invest.</u>	<u>Annual TIF</u>	<u>Perm. Jobs</u>
Parcel P-Q	\$1.2 B	\$5 – 6 M	1,000
LiveWork LV	\$0.9 B	\$3 – 4 M	5,068
CIM/Lady Luck	\$1.2 B	\$5 – 6 M	4,013
City Hall/Arena Site	<u>\$0.8 B</u>	<u>\$3 – 4 M</u>	<u>3,360</u>
	\$4.1 B	\$16 – 20 M	13,441

Operations Benefits of a New City Hall

- Reduces energy costs by over \$ 500,000 annually
 - FY08 Power and Gas Cost: \$ 821,698
 - New Building Power and Gas: \$ 284,886
- 2,348 metric ton reduction in CO2
- This utility cost savings, on a PV basis at 5.5% and 30 year term, is \$7.8M
- Avoids new equipment investment at current City Hall of \$ 1.5M

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